



LEBANON THIS WEEK

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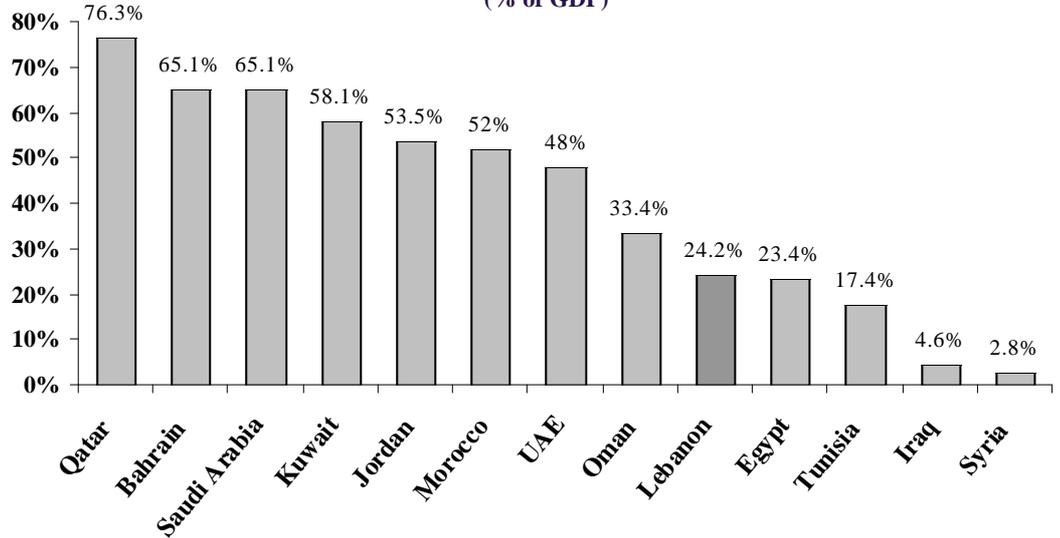
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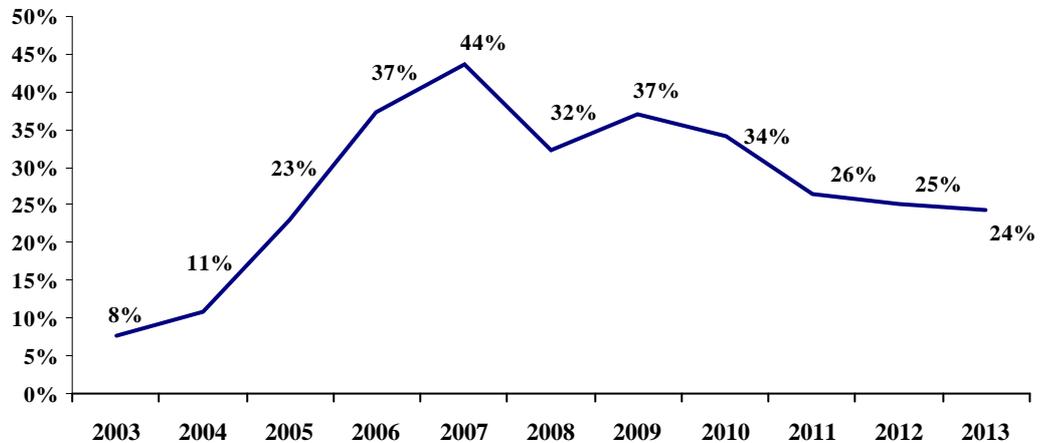
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Charts of the Week

Stock Market Capitalization in Select Arab Countries in 2013
(% of GDP)



Stock Market Capitalization in Lebanon (% of GDP)



Source: International Monetary Fund, Local Stock Exchanges, Arab Monetary Fund, Institute of International Finance, Byblos Bank

Quote to Note

"Investment in Lebanon's hydrocarbon potential will be held up until the political scene is clearer."

The Economist Intelligence Unit, on the increasing opportunity costs of the prevailing political divisions in Lebanon

Number of the Week

\$31.8bn: The Central Bank of Lebanon's gross foreign currency reserves at the end of November 2013

Economic Indicators

\$m (unless otherwise mentioned)	2012	Oct 12	Jul 13	Aug 13	Sep 13	Oct 13	% Change*
Exports	4,486	440	260	279	288	391	(11.14)
Imports	21,281	1,774	1,718	1,828	1,565	1,757	(0.96)
Trade Balance	(16,795)	(1,334)	(1,438)	(1,549)	(1,277)	(1,366)	2.40
Balance of Payments	(1,538)	(97)	(575)	(223)	504	(794)	718.56
Checks Cleared in LBP	14,976	1,353	1,513	1,354	1,473	1,516	12.05
Checks Cleared in FC	56,044	4,732	4,938	4,495	4,513	4,698	(0.72)
Total Checks Cleared	69,787	6,085	6,451	5,849	5,986	6,214	2.12
Budget Deficit/Surplus	(3,925)	(617.49)	(171.51)	(551.43)	(668.16)	(228.92)	(62.93)
Primary Balance	(109.87)	(215.20)	82.10	(382.69)	(262.33)	233.07	-
Airport Passengers	5,960,414	473,046	581,605	727,086	539,297	524,741	10.93

\$bn (unless otherwise mentioned)	Dec 2012	Oct 12	Jul 13	Aug 13	Sep 13	Oct 13	% Change*
BdL FX Reserves	29.97	29.46	31.27	31.00	32.03	31.86	8.13
<i>In months of Imports</i>	<i>16.02</i>	<i>16.61</i>	<i>18.20</i>	<i>16.96</i>	<i>20.47</i>	<i>18.13</i>	<i>9.18</i>
Public Debt	57.69	56.64	60.23	60.50	62.39	62.44	10.24
Net Public Debt	49.12	48.38	51.14	51.74	52.15	52.50	8.50
Bank Assets	151.88	149.38	157.81	158.56	159.26	160.63	7.53
Bank Deposits (Private Sector)	125.00	122.60	131.18	131.38	131.26	132.10	7.75
Bank Loans to Private Sector	43.45	42.76	45.17	45.57	45.88	46.50	8.75
Money Supply M2	43.62	42.31	44.18	44.42	44.49	44.72	5.69
Money Supply M3	104.71	102.43	107.33	108.28	108.49	109.02	6.44
LBP Lending Rate (%)	7.47	7.31	7.13	7.24	7.36	7.59	28b.p
LBP Deposit Rate (%)	5.46	5.43	5.43	5.47	5.37	5.44	1b.p
USD Lending Rate (%)	7.05	7.15	7.02	7.16	6.95	6.85	(30b.p)
USD Deposit Rate (%)	2.94	2.87	2.89	2.91	2.91	2.94	7b.p
%* Change in CPI**	3.66	7.75	3.15	3.81	4.81	5.04	(271b.p)

* Year-on-Year; ** Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	12.84	9.93	290,945	11.75%
Solidere "B"	12.88	10.65	151,888	7.66%
Byblos Common	1.60	0.00	36,251	5.26%
Byblos Pref. 08	101.00	0.00	5,536	1.85%
Byblos Pref. 09	101.50	0.00	0	1.86%
BLOM GDR	8.80	1.27	62,360	5.95%
BLOM Listed	8.27	0.00	50,250	16.26%
Audi GDR	6.60	0.00	69,000	6.16%
Audi Listed	6.40	1.59	40,059	20.48%
HOLCIM	15.00	(4.21)	2,858	2.68%

Source: Beirut Stock Exchange (BSE); *Week-on-week

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr. 2014	7.375	101.45	0.90
Jan. 2015	5.875	102.00	3.77
Apr. 2015	10.00	107.38	3.91
Jan. 2016	8.500	107.50	4.52
Mar. 2017	9.000	111.50	5.01
Nov. 2018	5.150	99.13	5.36
Apr. 2021	8.250	111.75	6.20
Nov. 2026	6.600	98.75	6.75

Source: Byblos Bank Capital Markets

	Jan 13-17	Jan 7-10	% Change	Dec 2013	Dec 2012	% Change
Total Shares Traded	894,950	183,363	388.08	3,186,671	6,388,172	(50.12)
Total Value Traded	\$11,702,527	\$1,899,627	516.04	\$30,056,051	\$32,380,727	(7.18)
Market Capitalization	\$10.93bn	\$10.71bn	2.10	\$10.55bn	\$10.42bn	1.19

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 96th globally, eighth among Arab countries in economic freedom, economy remains in "mostly unfree" category

The Heritage Foundation/*Wall Street Journal* Index of Economic Freedom for 2014, a broad indicator of economic freedom in 178 countries, ranked Lebanon in 96th place worldwide and in eighth place among 15 Arab countries. Lebanon also ranked in 28th place among 48 Upper Middle Income countries (UMICs) included in the survey. Lebanon ranked in 91st place globally and in ninth place regionally on the 2013 index. The index evaluates individual economies on the basis of 10 broad factors of economic freedom that are equally weighted.

Globally, Lebanon had a higher level of economic freedom than Mongolia, Burkina Faso and Fiji, and had a lower level than Vanuatu, Namibia and Serbia. It also had a higher level of economic freedom than Fiji, Bosnia & Herzegovina and Tonga; while it had a lower level than Azerbaijan, Namibia and Serbia among UMICs.

Lebanon's level of economic freedom remained nearly unchanged at 59.4% in 2014 relative to 59.5% in 2013, mainly due to declines in trade freedom, monetary freedom and the control of government spending, which were offset by minor improvements in business and labor freedoms. The survey indicated that Lebanon's overall entrepreneurial environment is hampered by political instability and regulatory inefficiency. It added that commercial regulations and bureaucratic red tape are burdensome, while property rights are severely undermined by an inefficient judiciary, which is vulnerable to corruption.

As a result, the survey maintained Lebanon's economic freedom status in the "mostly unfree" category for the second consecutive year. Lebanon was downgraded in the 2013 survey from the "moderately free" category, as its score fell below the 60% required to remain in the "moderately free" category. Lebanon was upgraded to the "moderately free" category in the 2011 survey from the "mostly unfree" category where it remained for more than 10 years. Lebanon's 2014 score was below the global level of economic freedom of 60.3%, the Arab level of 61.5%, and the UMICs level of 59.4%.

Lebanon ranked ahead of Bosnia & Herzegovina and behind Kenya globally, while it came ahead of only Djibouti and Mauritania regionally on the Business Freedom sub-index, which reflects the ability to create, operate and close an enterprise. The survey said that Lebanon's entrepreneurial framework lacks political stability and regulatory efficiency.

In parallel, Lebanon tied with 15 countries that include Greece, Macedonia, Tanzania and Philippines on the Investment Freedom sub-index, which is an assessment of the free flow of capital. Regionally, it came ahead of Kuwait and behind Djibouti. The survey noted that domestic political instability and the arbitrary and non-transparent interpretation of laws continue to impede foreign investment in Lebanon. Also, Lebanon ranked ahead of Samoa and came behind South Africa globally, and ranked ahead of Saudi Arabia and behind Kuwait regionally on the Trade Freedom sub-index. This category measures the absence of tariff and non-tariff barriers that affect imports and exports of goods and services. The survey noted that Lebanon's average tariff rate is 7.1%.

Also, Lebanon ranked ahead of Cambodia and behind Bulgaria globally, while it came ahead of Egypt and behind Yemen regionally on the Fiscal Freedom sub-index, which measures the tax burden of government. The survey estimated the tax burden at 17% of GDP, the 105th highest globally and the fifth highest among Arab countries. Further, Lebanon ranked ahead of Kosovo and behind Belize globally, while it came ahead of Qatar and behind Yemen among Arab countries on the Government Spending sub-index.

Arab Countries Rankings & Scores

Country	Arab Rank	Global Rank	Score
Bahrain	1	13	75.1%
UAE	2	28	71.4%
Qatar	3	30	71.2%
Jordan	4	39	69.2%
Oman	5	48	67.4%
Kuwait	6	76	62.3%
Saudi Arabia	7	77	62.2%
Lebanon	8	96	59.4%
Morocco	9	103	58.3%
Tunisia	10	109	57.3%
Djibouti	11	118	55.9%
Yemen	12	123	55.5%
Mauritania	13	134	53.2%
Egypt	14	135	52.9%
Algeria	15	146	50.8%

Source: Heritage Foundation 2014, Byblos Research

Economic Freedom in Lebanon by Category

	Arab Rank	Global Rank	Lebanon Score	Change in Score	Arab Average	Global Average
Business Freedom	13	134	55.6%	▲	63.9%	64.6%
Trade Freedom	8	92	75.8%	▼	72.3%	74.8%
Fiscal Freedom	9	30	90.9%	▲	89.7%	77.6%
Government Spending	4	76	73.7%	▼	66.9%	62.5%
Monetary Freedom	9	111	74.5%	▼	74.2%	73.9%
Investment Freedom	6	80	60.0%	↔	53.7%	54.9%
Financial Freedom	2	41	60.0%	↔	49.3%	48.7%
Property Rights	15	139	20.0%	↔	41.3%	42.6%
Freedom from Corruption	13	134	24.5%	▼	39.9%	39.3%
Labor Freedom	10	107	58.7%	▲	63.5%	61.7%

Source: Heritage Foundation 2014, Byblos Research

Lebanon ranks 102nd globally, 14th in MENA region in country risk

In its quarterly survey of the country risk of 186 countries, *Euromoney* magazine ranked Lebanon in 102nd place worldwide and in 14th place among 22 countries in the Middle East & North Africa region in the fourth quarter of 2013. Also, Lebanon came in 34th place among 51 upper middle income countries (UMICs) included in the survey. Lebanon's global rank regressed by seven spots from 95th place in the third quarter of 2013 and by five spots from 100th place in the fourth quarter of 2012. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessments.

Globally, Lebanon had a lower country risk level than that of Tanzania, Kenya and Senegal, and a higher risk level than that of Guatemala, Libya and Albania. It also ranked ahead of the Dominican Republic and behind Libya among UMICs. Lebanon's global rank regressed by 24 spots on the Debt Indicators category, by four spots on the Political Risk category, by three spots on the Economic Performance category, and by one spot on the Credit Ratings category from the third quarter of 2013. Its global rank remained unchanged on Structural Assessments and on the Access to Bank Finance & Capital Markets categories from the preceding quarter.

In parallel, Lebanon received a score of 35.78 points, constituting a decrease of 2.7% from 37.69 points in the third quarter 2013, a drop of 6.5% from 38.26 points in the second quarter and a decrease of 6.9% from the first quarter of 2013, while it declined by 2.6% from 36.75 points in the fourth quarter of 2012. Lebanon's score came below the Gulf Cooperation Council (GCC) countries' average score of 67.36 points, the MENA average of 43.31 points and the UMICs' average score of 43.46 points. Also, its score came below the global average score of 42.73 points and the Arab average score of 42.33 points, but was above the average score of non-GCC Arab countries of 30.77 points.

Lebanon's score on the Debt Indicators category decreased by 35.3% from the third quarter of 2013, its score on the Credit Ratings category dropped by 14.4%, its score on the Economic Performance category declined by 2.5% quarter-on-quarter, while its scores on the Political Risks and on the Structural Assessments categories declined by 1.7% each from the preceding quarter. Lebanon's score on the Access to Bank Finance & Capital Markets category remained unchanged from the third quarter of 2013.

Lebanon ranked ahead of Benin and behind Moldova globally, while it came ahead of Algeria and behind Bahrain regionally on the Political Risks category. Also, it ranked ahead of Macedonia and behind the Bahamas worldwide, and came ahead of Libya and behind Jordan regionally in terms of Economic Performance. Further, Lebanon ranked ahead of Peru and behind Namibia globally, and came ahead of Saudi Arabia and behind Bahrain regionally on the Structural Assessments category. Finally, Lebanon tied with Montenegro and Micronesia, while it ranked ahead of Guyana and behind Armenia globally, and came ahead of only Mauritania and Djibouti regionally on the Debt Indicators category.

MENA Countries Rankings & Scores

	Score	MENA Rank	Global Rank
Qatar	76.23	1	16
Kuwait	70.97	2	21
UAE	68.84	3	24
Oman	66.98	4	29
Saudi Arabia	66.55	5	32
Israel	66.14	6	33
Turkey	55.79	7	48
Bahrain	54.60	8	51
Jordan	45.18	9	77
Morocco	43.47	10	78
Tunisia	40.69	11	82
Algeria	39.41	12	89
Libya	36.01	13	100
Lebanon	35.78	14	102
Iraq	32.15	15	120
Egypt	30.49	16	133
Iran	26.60	17	148
Yemen	25.77	18	150
Syria	21.01	19	161
Mauritania	20.96	20	162
Sudan	20.39	21	164
Djibouti	8.72	22	181

Source: *Euromoney*, *Byblos Research*

Country Risk Indicators for Lebanon - Fourth Quarter 2013

	Weighting (%)	Score	MENA Rank	Global Rank	MENA Avg Score	Global Avg Score
Political Risk	30	10.67	12	126	12.44	13.80
Economic Performance	30	13.09	13	102	14.02	13.48
Structural Assessments	10	5.29	9	62	4.49	4.00
Debt Indicators	10	2.0	20	162	5.29	4.26
Credit Rating	10	1.25	12	106	3.12	3.15
Access to Bank Finance & Capital Markets	10	3.50	10	85	3.94	4.03

Source: *Euromoney*, *Byblos Research*

Real GDP growth projected at 2% in 2014, second lowest in MENA region

The World Bank projected Lebanon's real GDP growth at 2% for 2014, compared to a growth rate of 3.6% in the Middle East & North Africa region, 2.8% in the developing countries of the MENA region and 2.6% for the region's oil importers. In comparison, the World Bank projected global real GDP growth at 3.2% for this year and expected emerging economies to expand by 5.3% in 2014. Lebanon's projected growth rate for 2014 would make it the second slowest growing economy among 11 developing countries in the MENA region better than only Iran with a projected economic growth of 1% and relative to a contraction of -8.6% in Syria. Lebanon would also be the 10th slowest growing economy among developing countries in 2014 and would tie with Ukraine and Bosnia & Herzegovina.

Further, the Bank indicated that Lebanon's potential real GDP growth rate has been on a downward trend since 2011 as it fell from 5.1% in 2010 to 4.8% in 2011, 4.4% in 2012 and 4% in 2013. It expected this trend to continue in coming years as the country's potential real GDP growth rate would further decelerate to 3.6% in 2014, 3.3% in 2015 and 2.9% in 2016. Also, it pointed out that the gap between Lebanon's real and potential GDP growth rates has shifted to -1.7% in 2013 from 1.6% in 2012, 4.6% in 2011 and 6.4% in 2010. It expected the gap to widen to -3.2% in 2014 and -3.7% in 2015 and to narrow to -2.6% by 2016.

In parallel, the World Bank forecast Lebanon's current account deficit at 13.3% of GDP in 2014 relative to an estimated deficit of 14.1% of GDP last year, which would constitute the third-widest deficit in the region behind Syria (-15.5% of GDP) and Jordan (-14% of GDP); and compared to a deficit of 3.4% for the MENA region. Lebanon's projected current account deficit for 2014 would be the 23rd widest among developing economies.

The World Bank revised downwards its estimate for Lebanon's real GDP growth to 0.7% for 2013 from 1.5% previously, compared to a growth rate of 2.5% for the region's developing oil importers and 1.8% in the MENA region, and relative to a contraction of 0.1% in the developing countries of the MENA region. Lebanon was the slowest growing economy in the region last year, with real GDP in Syria, Libya and Iran posting contractions of 22.5%, 6% and 1.5%, respectively, last year. Lebanon was also the third slowest growing economy among developing economies in 2013, along with Hungary, Saint Lucia and Venezuela.

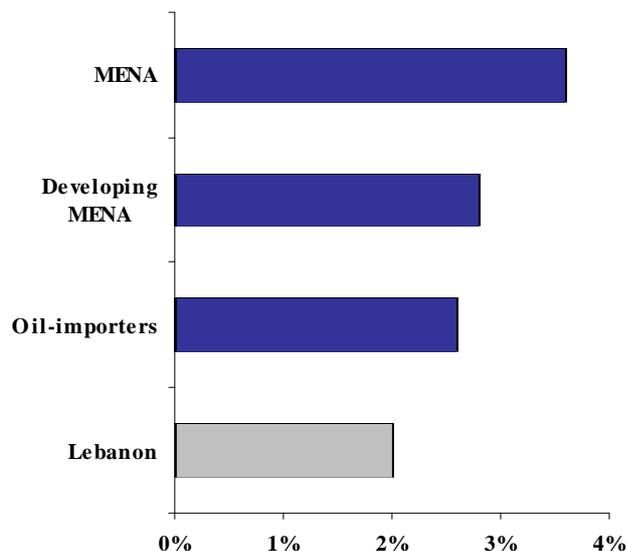
Association of Banks amends reference rates on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars to 5.96% in February 2014 from 5.92% currently. The rate, considered as the reference rate for lending in foreign currency that replaced the London Inter-Bank Offering Rate (LIBOR) in 2009 as the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to increase the Beirut Reference Rate in Lebanese pounds to 8.58% in February from 8.57% currently. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate.

Coincident Indicator continues to reflect economic stagnation

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 270.5 points in October 2013 compared to 247.2 in September 2013 and 255.6 in September 2012. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 9.5% month-on-month and rose by 11.1% year-on-year in October 2013. The indicator averaged 262.8 in the 12 months ending October 2013, compared to 261.5 in the 12 months ending September 2013 and 256.8 in the 12 months ending October 2012. As a result, the average coincident indicator rose by 0.5% month-on-month and by 2.3% year-on-year, which reflects economic stagnation. In parallel, the indicator improved 18 times, regressed two times and remained unchanged once in the month of October since 1993. The indicator reached an all-time high of 273.7 points in April 2012. It averaged 256.6 in 2012, 255.7 in 2011, 249.5 in 2010 and 225.9 in 2009.

Projected Real GDP Growth in 2014 (%)



Source: World Bank, Byblos Research

Standard & Poor's maintains assessment of Lebanese banking sector

Standard & Poor's maintained Lebanon's Banking Industry Country Risk Assessment (BICRA) at Group '8' and its economic risk score at '9', but downgraded its industry risk score to '7' from '6'. The BICRA framework evaluates and compares global banking systems, and covers a country's rated and unrated financial institutions. It assigns scores to banking systems on a scale from one to 10, with 'Group 1' including the least risky banking sectors and 'Group 10' the riskiest ones. Other countries in BICRA 'Group 8' include Tunisia, Georgia, Hungary, Slovenia and Nigeria.

S&P indicated that Lebanon's economic risk score reflects its "extremely high risks" in terms of economic resilience, its "high risks" in economic imbalances, and its "very high risks" in terms of credit risk in the economy. It said that Lebanon's political divisions, which are blocking long-term reforms and public investment, as well as regional uncertainties, mainly the conflict in Syria, are preventing the economy from achieving its growth potential and are reducing domestic lending opportunities for banks. It expected political risks to remain elevated and to continue to be a significant weakness for the economy, given the latter's high vulnerability to internal and external political shocks. It forecast private sector annual credit growth at about 10% during the 2014-15 period, driven by trade, services, domestic consumption and real estate lending.

Further, the agency considered that Lebanese banks' exposure to the sovereign constitutes the key credit risk for the banks. It noted that domestic banks continue to use large and resilient deposit inflows to subscribe to sovereign bonds. It added that this is allowing the government to finance its structurally high fiscal deficit, but is inflating banks' balance sheets and is exposing them to a single large borrower. Further, S&P considered that loan quality is not likely to improve, but it noted that banks are in a sound position to withstand the gradually deteriorating quality of private sector loans. The agency pointed out that the trend for economic risk in Lebanon is "negative" given the rising risks related to banks' exposure to the sovereign and the weak economic prospects for the coming two years. It anticipated that the government's overall financial flexibility would continue to be constrained in the absence of reforms and the ongoing political deadlock.

S&P indicated that Lebanon's industry risk score reflects the downgrading of its system-wide funding risks to "high risks" from "intermediate risks" and maintaining its assessment of institutional framework and competitive dynamics at "high risks". It said that Lebanon has an adequate track record of regulation and supervision as well as favorable interest rates, which support the banks' ability to attract steady flows of deposits and support the government's financing needs. It added that the sector's competitive landscape is crowded, but is largely concentrated around a dozen players. Further, it noted that resilient retail deposits constitute the bulk of the banking sector's funding. But it added that the deteriorating domestic public finances and poor growth prospects are increasing the burden that banks face by relying on funds from the Lebanese Diaspora to source foreign currency inflows. S&P classified the Lebanese government's propensity to support the domestic banking sector as "uncertain" as the deteriorating operating conditions have eroded the sovereign's creditworthiness. The agency pointed out that the trend for industry risk in Lebanon is "negative" given the rise in system-wide funding risks.

Subsidized agricultural exports up 14% in 2013

The Investment Development Authority of Lebanon (IDAL) indicated that agricultural exports subsidized by the Agri Plus program reached 519,000 tons in 2013, constituting an increase of 14.1% from 455,000 tons in 2012 and compared to 400,000 tons in 2011. It said that potato exports reached 198,000 tons last year, and were equivalent to 38% of total exports. They were followed by apple and citrus exports with 79,000 tons and 78,000 tons, respectively, equivalent to 15% each of the total. It noted that 31% of total agricultural products were exported to Jordan and Syria, and the remaining 69% to the rest of the Arab countries. Established in 2012, the Agri Plus program supports the competitiveness of Lebanese agricultural products, particularly through improving the production, packaging, promotion and distribution of such products. In parallel, the Ministry of Agriculture indicated that overall agricultural exports rose by 5.8% in 2013. The ministry indicated that the main challenge currently facing agricultural exports is the elevated transportation costs.

NSSF allows installments of overdue subscription fees

The Board of Directors of the National Social Security Fund (NSSF) agreed to allow companies and individuals who have not paid their subscription fees till September 30, 2013 to pay them in installments. The resolution stipulates that institutions and individuals would be exempted from paying the late-penalty fee following the set-up of an installment payment system that would charge them a 5% interest rate. However, it states that late payers who do not agree to subscribe to the installment payment system would not be exempted from the late-payments penalty fees. The resolution is projected to lead the Fund to ease its ongoing liquidity crisis, and would allow it to disperse funds to the insured.

Central Bank to ease Lebanese banks' compliance with Basel III

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that the spreads on Lebanon's credit default swaps (CDS) narrowed to 3.8% at the end of 2013 from 4.2% previously, which reflects a decline in the level of sovereign risks. He noted that the external obligations of Lebanese banks have expanded, given the rise in non-resident deposits, which has negatively affected the balance-of-payments. But he added that foreign demand for Lebanese Eurobonds has increased. He said that Lebanon's real GDP growth rate and inflation level might have reached 2.5% and 3.5%, respectively, as per preliminary figures from the Central Administration of Statistics.

He estimated that the banking sector's aggregate profits for 2013 could reach or slightly exceed their 2012 level, despite the allocation of new provisions. He said that the banking sector's aggregate deposits rose by 7% in 2013 and that the dollarization rate of deposits remained at 66% last year. He pointed out that the growth in local currency loans exceeded that in foreign currency last year due to the financial facilities that the Central Bank provided to Lebanese banks. Also, he informed the ABL that the Central Bank would ease Lebanese banks' compliance with Basel III requirements without affecting the relevant ratios. He hoped that this would attract new investors to the banking sector.

Further, Governor Salamé said that international pressure on the Lebanese banking sector has eased following the lobbying efforts by the ABL on the new regulations issued by the Central Bank. He noted that the Bank's regulations protected the banking sector from illegal financial flows. He also informed the ABL that most of the 360 money dealers operating in Lebanon increased their capital as per the Bank's regulation. He added that only 30 to 40 money dealers remain non-compliant with the new regulations.

In parallel, the ABL raised the issue about the Ministry of Finance imposing on banks obligations that are the responsibility of offshore companies. It noted that the ministry has asked banks to withhold taxes from offshore firms registered in Lebanon, which the ABL considered a misinterpretation of certain clauses of the income tax law and a clear infringement of Lebanese laws. It said that the ministry widened its interpretation of the application of the tax law, which led many bank clients to move their activity abroad and negatively affected the off-balance sheet activities of Lebanese banks. It suggested the formation of a committee between the Central Bank, the ministry, and the ABL in order to address this issue that has become harmful to the Lebanese financial markets.

Public-sector salaries and benefits up 3.2% in first nine months of 2013

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$2.1bn in the first nine months of 2013, constituting an increase of 3.2% from the same period of 2012. They represented the second largest component of total primary spending and accounted for 28% of such expenditures in the covered period compared to 31% in the same period of 2012. The figures include basic salaries, indemnities, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges and Parliament employees. The payments exclude retirement and end-of-service indemnities as well as salaries, wages and benefits of employees at public institutions. Salaries and benefits of military personnel reached \$1.3bn and accounted for 62.6% of the total, followed by educational personnel with \$439.8m (21.1%), civil staff with \$316.4m (15.2%), and customs employees with \$22.6m (1.1%). The distribution of military personnel salaries and benefits shows that the Lebanese Army's salaries totaled \$833.2m in the first nine months of 2013 and represented 63.8% of total military personnel salaries and benefits. They were followed by salaries of the Internal Security Forces with \$377.4m (28.9%), General Security Forces with \$71.6m (5.5%), and State Security Forces with \$23.2m (1.8%).

The ministry attributed the increase in salaries, wages and related benefits paid to public-sector employees to an increase of \$84.2m, or 6%, in basic salaries that reached \$1.6bn. The breakdown of basic salaries shows a rise of \$61m in outlays to educational personnel, an increase of \$13.9m in payments to military personnel, and a rise of \$8.6m in payments to civil personnel. Also, indemnities rose by 16.1% to \$105.5m year-on-year; while allowances declined by 2.8% annually to \$295.2m and other expenses, mainly composed of payments to employees of the Civil Servants Cooperative, fell by 17.6% year-on-year to \$111.4m.

Kafalat loan guarantees down 14% to \$118m in 2013

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$118.2m in 2013, constituting a decline of 14.3% from \$137.9m in 2012. The number of loan guarantees totaled 871 in 2013 compared to 1,025 in the previous year. The average loan size reached \$135,664 last year compared to \$134,553 in 2012. The agricultural sector accounted for 42.9% of total guarantees, followed by industry with 33.6%, tourism with 16.3%, handicraft with 4.9%, and specialized technologies with 2.2%. Mount Lebanon accounted for 40% of guarantees, followed by the Bekaa with 21.6%, the South with 13.4%, the North with 11.4%, Nabatieh with 7.4% and Beirut with 6.3%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the set up and expansion of small and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative startups and a similar percentage of the interest that accrues during the grace period.

Car sales up 2% in 2013

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that a total of 36,109 new passenger cars were sold in 2013, constituting an increase of 1.8% from 35,477 cars sold in 2012. This rise in new car sales is mainly attributed to aggressive promotional and advertising campaigns. Korean cars accounted for 45% of total sales, followed by Japanese cars with a 28% share, European automobiles with 19.5%, American vehicles with 5.5% and Chinese cars with 2.1%. Chinese cars posted the highest growth in sales with a 63.3% rise year-on-year, followed by Japanese cars with a 5.5% increase and Korean cars with a 1.5% rise. In parallel, American cars posted an 11.2% contraction in sales year-on-year, followed by European cars with a 2.4% decrease. Kia is the leading brand in the Lebanese market with 9,310 cars sold in 2013, followed by Hyundai with 6,901 cars sold, Nissan with 4,974 cars, Toyota (2,189), Chevrolet (1,184), Renault (1,065) and Mitsubishi (940). In parallel, a total of 2,257 new commercial vehicles were sold in 2013, up by 3.3% from 2,185 vehicles sold a year earlier, and up by 9.2% from 2,067 vehicles sold in 2011.

The AIA indicated that the combined number of registered new and imported used cars in 2013 decreased by 6% from the previous year, by 9.5% from 2011 and by 27% from 2010. It said that about 90% of new cars sold during the year were small automobiles that cost about \$11,000 each. It noted that the trend towards buying smaller cars is due to the high price of gasoline, the lack of proper public transportation, and fierce competition among car dealers. It added that this translates into lower sales figures and, consequently, a decline in dealers' income.

Joint venture wins \$3.1m tender for BRSS project

A joint venture between Lebanese firms Phoenix Energy, ASACO General Trade & Contracting and Dalal Steel Industries, as well as China's Yingli Solar, won the bid to execute the one Megawatt Beirut River Solar Snake (BRSS) Project. The \$3.1m project consists of building the primary structure over the Beirut River for \$0.7m and completing the photovoltaic (PV) system for \$2.4m.

A total of 32 companies expressed interest in the project, 25 of them were invited to bid and 12 firms submitted their offers. However, only five companies were short-listed based on the technical evaluation of their proposals. The joint venture was selected based on its final score, which consisted of 70% of the technical score and 30% of the financial score.

Phoenix Energy focuses on renewable energy applications, particularly on solar energy, and is a member of the Phoenix group of companies and the INDEVCO Group. In parallel, Yingli Solar is the world's largest solar panel manufacturer; while Dalal Steel Industries mainly manufactures and installs prefabricated buildings, containers, cranes, steel stairs, doors, panels and shelving racks.

IBL's net profits at \$37.4m in first nine months of 2013

IBL Bank sal announced unaudited consolidated net profits of \$37.4m in the first nine months of 2013, up 2.5% from the same period last year. Net operating income grew by 12.6% year-on-year to \$72.8m, with net interest income decreasing by 54.5% to \$21.8m and net fees & commissions receipts increasing by 55.3% to \$5.3m. Non-interest income accounted for 71.1% of total income, up from 29.4% in the first nine months of 2012 with net fees & commissions accounting for 9.8% of non-interest earnings down from 17% in the first nine months of 2012. Further, the bank's interest margin was 0.65% in the first nine months of 2013 relative to 1.61% in same period of 2012, and its spread declined to 0.65% from 1.59% in the same period last year. Total operating expenditures increased by 22.2% to \$29.2m, with staff expenses growing by 13.3% to \$15.9m. Also, the bank's return on average assets reached 1.11% in September 2013 on an annualized basis, relative to 1.21% a year earlier; while its return on average equity was 15.97% on an annualized basis relative to 17.26% in September 2012. The cost-to-income ratio increased to 38.8% in the first nine months relative to 35.3% in the same period last year.

In parallel, total assets reached \$4.6bn at end-September 2013, constituting a 5.3% rise from end-2012 and a 9.2% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 2% in the first nine months of the year to \$873.4m. Also, customer deposits, excluding deposits from related parties, totaled \$4.2bn at end-September, reflecting growth of 5.2% from end-2012 and a rise of 10.6% from a year earlier. The loans-to-deposits ratio decreased to 21.3% at end-September 2013 from 22.8% a year earlier.



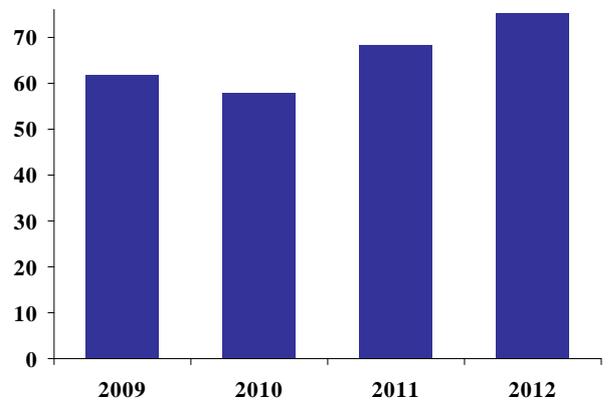
Net profits of the life insurance category up 9.8% to \$75m in 2012, claims up 39.8% to \$149.2m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) show that the net profits of the life insurance category in Lebanon reached \$75m in 2012, constituting an increase of 9.8% from \$68.3m in 2011. The life insurance category contributed 61.3% of the insurance sector's aggregate net profits. The life insurance segment posted a net profit margin of 19.8% in 2012, compared to a ratio of 18.8% in 2011 and relative to a margin of 9.2% for the insurance sector. Further, gross written premiums from the life insurance segment rose by 4.5% to \$386.2m in 2012 and accounted for 29.3% of the insurance sector's aggregate premiums, the highest such share among insurance segments in Lebanon.

Further, net investment income from the life category reached \$78.2m in 2012 and increased by 22% year-on-year as gross investment income rose by \$12.4m. In parallel, paid claims for the life category totaled \$149.2m in 2012, constituting a rise of 39.8% from \$106.7m in 2011. The change in technical reserves totaled \$102.7m in 2012, down by 31.7% annually, partly due to a 29.8% drop in the change in mathematical reserves. Also, policyholders' dividend reached \$3.9m in 2012, constituting an increase of 7.4% from \$3.6m in 2011. The net reinsurance expense almost doubled to \$30.3m in 2012, mainly due to a large change in the reinsurance share of premiums reserves. The general insurance expenses totaled \$82.2m in 2012 compared to \$76.2m in 2011, and included \$35.5m in brokerage expenses that accounted for 43.2% of the total insurance expenses and \$33.2m in administration costs \$33.2m that represented 40.4% of the total.

In parallel, the loss ratio, or the ratio of claims incurred to earned gross premiums, of the life insurance category was 40.4% in 2012; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 11.9%; the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, was 8.2%, and the expense ratio, or the ratio of other general expenses to earned gross premiums, reached 10.4% in 2012. As such, the average technical combined loss ratio, which is the aggregate ratio of the above four ratios, reached 70.8% in 2012.

Net Profits of Life Segment (US\$m)



Source: ACAL, Byblos Research

Ratio Highlights

(in % unless specified)	2010	2011	2012	Change*
Nominal GDP (\$bn)	37.1	39.3	41.6	
Public Debt in Foreign Currency / GDP	55.5	53.2	58.7	550
Public Debt in Local Currency / GDP	86.2	83.2	80.2	(300)
Gross Public Debt / GDP	141.7	136.4	138.9	250
Total Gross External Debt / GDP	167.2	173.8	172.3	(150)
Trade Balance / GDP	(36.9)	(40.5)	(40.4)	10
Exports / Imports	23.7	21.2	21.1	(10)
Fiscal Revenues / GDP	24.8	23.7	22.8	(90)
Fiscal Expenditures / GDP	30.5	29.7	30.2	50
Fiscal Balance / GDP	(5.7)	(6.0)	(8.3)	(230)
Primary Balance / GDP	5.5	4.2	0.7	(350)
Gross Foreign Currency Reserves / M2	72.6	79.2	69.4	(980)
M3 / GDP	248.4	247.4	250.0	260
Commercial Banks Assets / GDP	347.3	357.4	365.6	820
Private Sector Deposits / GDP	289.0	294.4	300.5	610
Private Sector Loans / GDP	94.2	100.2	104.5	430
Private Sector Deposits Dollarization Rate	63.2	65.9	64.8	(110)
Private Sector Lending Dollarization Rate	80.3	78.4	77.6	(80)

* Change in basis points 11/12

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, Ministry of Finance, Byblos Research Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Outlook

Lebanon	Apr 2012	Mar 2013	Apr 2013	Change*	Risk Level
Political Risk Rating	55.5	53.0	53.0	▼	High
Financial Risk Rating	35.0	35.0	35.0	↔	Low
Economic Risk Rating	34.0	34.0	34.0	↔	Moderate
Composite Risk Rating	62.2	61.0	61.0	▼	Moderate

Regional Average	Apr 2012	Mar 2013	Apr 2013	Change*	Risk Level
Political Risk Rating	60.3	58.6	58.6	▼	High
Financial Risk Rating	42.1	41.5	41.5	▼	Very Low
Economic Risk Rating	37.2	36.4	36.3	▼	Low
Composite Risk Rating	69.8	68.2	68.2	▼	Moderate

*year-on-year

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B1	NP	Negative	B2		Negative
Fitch Ratings	B	B	Negative	B		Negative
Standard & Poor's	B-	B	Negative	B-	B	Negative
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative
EIU		CCC	

Source: Rating agencies

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